June 1, 1988

GUIDELINES FOR

THE HOUSING INNOVATIONS FUND

Introduction

These guidelines are effective as of June 1, 1988 and supercede the edition dated February 1, 1988. Projects that have received Conditional Funding Reservations in the initial HIF round that commenced in March are not subject to these guidelines. However, all other projects, including those that have been determined eligible for HIF assistance, will be expected to meet the conditions outlined in these guidelines.

Background

The Housing Innovations Fund (HIF) was created in the state's 1987 Housing Act. The Executive Office of Communities and Development (EOCD) is authorized to use up to $30 million in general obligation bond funds for the "creation of alternative forms of housing for low-income persons and families."

The legislation illustrates "alternative forms of housing" as those which include, but are not limited to, transitional housing for the homeless, single room occupancies, battered women's shelters, mutual housing and limited equity cooperatives, and veterans congregate housing. HIF loans and/or grants are to be provided through local housing authorities (LHAs) or community development corporations (CDCs) organized under Chapter 40 of the General Laws.*

Eligible projects must be sponsored and developed by Chapter 180 non-profit corporations. HIF financing in support of such projects should be used for the construction or purchase and renovation of property.

Overall Program Policies

HIF funds will be used to provide or support capital financing in conjunction with specific real estate development projects. Such funding may take the form of:

(a) Short-term loans for a portion of acquisition costs;

(b) Letters of credit and mortgage payment guarantees to secure construction and/or mortgage financing on appropriate terms from private or other public sources;

(c) Subordinated mortgage loans for a portion of total development costs;

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* The legislation also mentions limited equity cooperative corporations as eligible grantees. However, state bond funds require a "public" agency conduit, which includes LHAs and CDCs, but excludes limited equity cooperatives as direct grantees.

(d) Interest subsidies and/or principal reduction payments for share loans in limited equity cooperatives; and

(e) Financing fees for LHAs and CDCs which are not directly involved as the project developer, as well as loan processing fees associated with applications for funding that are made to the Community Economic Development Assistance Corporation (CEDAC).

Projects may recieve HIF assistance from more than one of these forms of funding.

Eligible Projects

Real estate projects eligible to receive HIF financing must (a) provide housing for low-income households, (b) be innovative, and (c) relate to certain residential "use categories."

Project Scope: HIF funds are intended primarily to support residential, rental projects. As such, the majority of the net useable space must be for residential purposes, i.e., housing units or related shelter facilities. There is no maximum project size; at a minimum, however, projects must serve no fewer than three low-income households. (For a definition of "housing unit", see Appendix A.)

Innovation: Innovative projects are those which require special financial assistance that is not adequately available from existing public or private sources. HIF funding may not be used to replace an existing state program, such as Chapter 689. As required by HIF regulations, HIF cannot simply substitute for already committed sources of permanent financing. It may, however, be used in conjunction with such EOCD programs as SHARP, TELLER, the new Rental Housing Development Action Loan Program (Rental-DAL), and any other public financing sources designed to provide a portion of the capital funding needed for financial feasibility. HIF can also be used as the capital financing match for McKinney Homeless applications submitted to the U.S Department of HUD.

Eligible Uses: Eligible projects must provide housing facilities for one of the following three "use categories":

(a) Mutual housing or limited equity cooperatives. (For a discussion of financial structures of limited equity cooperatives, see Appendix B.);

(b) Single room occupancies; or

(c) Alternative forms of housing that involve an unusual or specialized level of management or social services for resident populations with special needs*; or (as a second priority) that involve new or unusual engineering design elements, methods of construction or production, forms of financing, combinations of financial resources, or income composition of residents. (For a discussion of the meaning of an unusual or specialized level of management or social services and special needs populations, see Appendix C.)

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* Transitional housing projects must be structured so that the maximum stay of any resident is less than two years. A housing search component must be included as part of the social services component of transitional housing.

In a "mixed-use" project (a project that combines an eligible HIF use with a non-eligible HIF use), HIF funding will be calculated on the basis of the number of eligible units within the project. In addition, if required as part of specialized services provided to residents on a 24-hour basis, HIF will fund the unit(s) of a live-in service provider or resident manager up to an appropriate ratio to the qualified units.

To the extent they are financially feasible and relate to one of the use categories, eligible projects may provide housing opportunities exclusively for low-income populations. At a minimum, however, no fewer than 50% of the units must be reserved for the term of the HIF financial assistance for occupancy by individuals or families whose incomes are below 80% of the area median ("low-income persons or families"); and within this percentage, at least half must be reserved for those whose incomes are below 50% of the median ("very low-income persons or families"). Tenant rental payments for units explicitly reserved for low-income persons or families generally should not exceed 30% of a particular household's adjusted gross income.* HIF mortgage loans will usually have a minimum term of 40 years; they cannot be prepaid during this 40 year period without prior approval from EOCD. Deed restrictions will be established to preserve lower-income housing opportunities for at least this period. Deed restrictions will, however, be waived in the event of foreclosure by the primary mortgage lender.

In order to continue to defer repayment of the HIF loan, at the end of the HIF loan term (40 years), the project must be in compliance with HIF regulations and guidelines in effect at that time. If there are no HIF regulations and guidelines in effect, then the principal and accrued interest must be repaid.

Eligible projects should involve the "creation" of housing, either through new construction or through rehabilitation and conversion of property to an eligible use. (Thus, this "creation of housing" criterion is not met by simply purchasing property occupied under a lease.) Preservation projects, i.e., those designed to provide new capital financing for properties that already house eligible uses, may receive funding only if they involve (a) transfer of ownership to a non-profit or CDC developer, (b) physical improvements to the real estate, and (c) improved forms of management and services. The requirement of subsection (c) is met if a non-profit acquires a building that it is currently leasing. (The intent of these conditions is to ensure that buildings acquired by non-profits are improved so that maintenance costs will be minimized and thus will not be a financial drain on a non-profit's operational revenues over the term of the HIF mortgage.)

HIF may not be used to renovate a building currently owned by a non-profit and operated as an eligible use. If an eligible project is occupied at the time of application for HIF assistance, the developer must have adhered to or plan to follow the provisions of M.G.L. C. 79A and 760 CMR 27.00 in carrying out any relocation required by the rehabilitation of the project.

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* Over the life of the project, if the income of a very low or a low-income tenant residing in an HIF unit exceeds the limits established in the HIF program, the project will continue to meet HIF guidelines if the project developer/owner rents the next available unit to an income-eligible household.

Furthermore, in determining the income of minors to be housed in HIF projects, parental income and assets may be attributed to minor children to determine if 50% of the housing is being reserved for low-income households.

The developer must prepare and EOCD will review and approve the developer's affirmative marketing and tenant selection plans for the HIF project. Such plans shall be developed in accordance with standards in effect for either the HIF program or another public subsidy program.

Eligible Fees and Administrative Costs

HIF funds may be used to pay LHAs and CDCs certain financing fees. They may also pay for certain HIF loan processing fees. Such financing and processing fees will be paid directly from HIF program funds and will not be charged to the developer/owner or deducted from the HIF loan amount.

Payments for administrative costs that are incurred by developers during construction, and development fees that are earned for successful completion of projects can, and should be contained in overall financing packages.

Eligible Participants

An HIF project will normally involve participation by both an LHA or CDC and a Chapter 180 non-profit, tax-exempt* (501(c)(3)) corporation. An LHA or CDC must sponsor the project and act as financial intermediary; it will also be the initial recipient of the HIF funds in the form of a conditional grant from EOCD. The grant agreement will specify the amount, purpose, and conditions of the HIF financing as approved for the project; it will also direct that payments be made to CEDAC when the loan term expires or the character of the project changes.

As financial intermediary, the LHA or CDC may act simply as a pass-through of the HIF funds to the non-profit developer in an arms-length transaction. Alternatively, the LHA or CDC may create a non-profit entity to develop the project, or it may participate on the development team as a joint-venture partner. Finally, the CDC (if organized with tax-exempt status and under Chapter 180) may simultaneously receive the funds and be the development entity. In all cases, non-profit corporations participating in the HIF program must be the sole owner of the development project, the principal (greater than 50% ownership) owner in a joint venture, or the managing general partner in a limited partnership.

LHA and CDC Participation in HIF projects

LHAs and CDCs that plan to participate as financial intermediaries in HIF development projects must be willing to participate in the HIF financial transactions and to undertake certain responsibilities in the HIF loan closing, as described below. LHAs and CDCs are not guarantors of HIF loans; nor are they liable for deferred payment loans (DPLs) made to an HIF project; neither will they be responsible for securing the DPL or monitoring the HIF project after completion and occupancy. On the other hand, the LHA/CDC must be willing to:

(1) Enter into a grant agreement with EOCD that provides for a DPL to be made to the non-profit developer of the HIF project;

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* If an organization is not a tax-exempt corporation (501(c)(3)) at the time of filing an HIF application, it must apply for and obtain this status by the HIF loan closing.

(2) Participate in the actual financial transaction (e.g., HIF loan closings) necessary to provide assistance to the non-profit developer; and

(3) Provide quarterly financial and other reports, as required by EOCD, on the status of HIF funds granted to the LHA/CDC during the development process.

In order to express interest in participating in an HIF project, an LHA/CDC must provide a non-profit developer with written assurance that its responsibilities in the HIF financial transaction are understood. Letters indicating that the LHA/CDC will be responsible for the undertakings outlined above must be provided in both the Preliminary and Final HIF applications. The letter submitted in the HIF Preliminary Application can be signed by the LHA/CDC executive director; however, the letter submitted in the HIF Final Application must reflect a vote of the LHA/CDC board of directors.

In order for an LHA to act as a financial intermediary, the LHA must be based in the city or town in which the project is actually sited. A CDC may act as a financial intermediary only for a project located within its target area.

Program Components

Eligible projects may receive HIF assistance through four program components: (1) acquisition loans, (2) mortgage payment guarantees, (3) permanent mortgages, and (4) subsidized share loans for limited equity cooperatives.

1. Acquisition Loans

Project developers will be invited through CEDAC's standard application process to secure funding for front-end and site control costs and technical assistance funds. For projects involving CDCs, CEDAC's existing capabilities to provide financial assistance should be sufficient to advance most projects through feasibility analysis and to the point of permanent financing commitments.

Legislation is currently pending that will permit CEDAC to operate on a state-wide basis. In the interim, HIF funds may provide front-end loans for projects involving CDCs but located outside eligible CEDAC areas and for LHA-sponsored projects. Regardless of the source of funds, however, all front end loans will be made according to CEDAC's existing guidelines.

In addition, there may be special circumstances where developers have a tangible project concept, but are unable to negotiate an option or sales agreement that permits time to develop it to the point of assembling a financing package. These circumstances will involve properties that are at risk of being sold for uses other than housing for low-income individuals and families. With CEDAC's endorsement that the developer is capable and that the project is likely to be financially feasible, HIF funds may provide interim financing for acquisition.

A conditional grant will be made to the LHA or CDC for up to 25% of the negotiated cost or appraised value, whichever is less. The maximum acquisition

loan amount will be $15,000 per residential unit (as existing or contemplated) and $500,000 per project.

The conditional grant will be used to make a interest-free, deferred payment loan (DPL), secured to CEDAC by a second-position mortgage on the property. The maximum term of the DPL will be two years. During the loan term, no payments will be required; but the project concept must be fully developed, and construction and permanent financing must be assembled. The full principal amount will be due and payable to CEDAC either from the construction/permanent financing or, in the event the project concept does not materialize within the loan term, from sale of the property. Thus repaid, the HIF funds will be available for reuse elsewhere for HIF purposes.

2. Credit Enhancements: Letters of Credit and Mortgage Payment Guarantees

To assist developers to attract and secure construction and permanent financing, HIF funds may be committed to secure Letters of Credit and to support Mortgage Payment Guarantees. Commitments to HIF projects for Letters of Credit and Mortgage Payment Guarantees and disbursements of funds in behalf of these commitments will be made in consideration of the rules that govern the source of HIF funds.

In order for an HIF project to receive a Letter of Credit or a Mortgage Payment Guarantee, the first mortgage lender must be willing to provide a loan term and amortization period of at least 25 years. A loan with a balloon payment due in a shorter period would not be considered satisfactory. An HIF project with such first mortgage financing terms would not receive a Letter of Credit or a Mortgage Payment Guarantee through HIF.

To be eligible for these funds, developers must provide CEDAC with evidence that their use is required by the primary mortgagee as a condition of its making a financial commitment to an HIF project with a favorable amortization period and loan term. The amount may not exceed the lesser of (a) 12 months' debt service on the mortgage, (b) $5,000 per residential unit, or (c) $250,000 per development project. The funds may be reserved for a period not to exceed five years. Amounts, if any, drawn down from the Letter of Credit or Mortgage Payment Guarantee will be added to the principal amount of the mortgage. Use of these funds may trigger an investigation by EOCD into the management of the HIF project.

A developer may indicate its intent to apply for a form of credit enhancement and the amount of credit enhancement that it thinks the proposed HIF project is eligible for in the Preliminary Application. However, it is not expected that a reservation of HIF monies for either a Letter of Credit or a Mortgage Payment Guarantee will be made until after the primary mortgage financing for the project has been obtained. Thus, a reservation of HIF funds for credit enhancement will be made in the Firm HIF commitment.

3. Permanent Mortgage Financing

HIF funds may provide permanent mortgage financing for a portion of the total development costs of a project. The mortgage loan will be a DPL, provided as a grant to the LHA or CDC. The placement of the DPL may be behind other mortgage loans; without special waiver, the DPL may be as junior as third position. EOCD will enter into inter-creditor agreements with other public mortgagees which join in financing a project.

The concept of the DPL is to provide permanent financing that does not require debt service payments for as long as the purposes of the project are being met. However, it will be secured by a surplus cash note and lien on the property in favor of CEDAC. It will also carry simple interest at 5% per year which will accure for the first 20 years of the 40 year term of the loan. Principal and interest will be due upon sale; however, the debt may be assumed by a purchaser with approval of EOCD. During the term of the note, repayments will be required only from cash flow; first interest, then principal will be due when cash flow exceeds 15% of Net Operating Income. All excess cash flow will be applied to HIF loan repayment. Financial statements of both the non-profit owner and the project must be presented annually to EOCD for review.

In general, the maximum DPL will be the lesser of 25% of total development costs (including acquisition, construction, and related soft costs) or $15,000 per residential unit. The maximum loan per project will be $500,000. Developers may apply for and projects may receive the maximum DPL amount; however, EOCD does not intend to replace existing financing commitments with HIF funds, and such projects may receive less than the maximum DPL amount. A shelter may receive up to 25% of the total development cost in a DPL.

If no other source of financing can be obtained, an increase of $5,000 per unit (up to $20,000 per unit) in permanent mortgage financing is allowable for "high cost" projects, i.e., those where site improvements and overall construction costs are unusually high. In determining whether a project should receive more than $15,000 per unit in HIF permanent mortgage financing, the characteristics of the project that resulted in high per unit development costs will be examined. Generally, factors include an unusually high proportion (more than 20%) of three-and four-bedroom units; high-rise construction; existing site conditions that result in high infrastructure or site preparation costs; and extensive modifications to a typical unit plan necessitated by a special needs resident population. The high cost of acquiring a site (building or land) will not qualify as an existing site condition to justify additional HIF assistance.

An HIF permanent mortgage commitment in excess of $15,000 per unit is only available after a firm construction budget has been developed and other permanent financing has been committed to a project. Thus, a project developer can request and rely on receiving only up to $15,000 per unit in HIF permanent mortgage financing at the onset of a project and through the Conditional Reservation of Funds stage of the approval process. If a financing gap still exists after firm contractor bid prices have been developed, up to the maximum of $20,000 per unit may be committed. In no case, however, will the HIF permanent mortgage exceed 25% of the total development cost of the project, or $500,000 per project.

HIF is intended to be permanent financing and thus, generally, will not be available to new construction and rehabilitation projects until after construction is complete. However, in recognition that non-profits need to show equity to both construction and permanent lenders (which are sometimes the same institution), at CEDAC's recommendation, HIF funds can be made available at the initial (construction) closing.

4. Share Loans

The HIF will be used to establish a subsidized Share Loan Fund to enable

lower-income households to purchase shares in limited equity cooperatives. The details of the program are being developed with assistance from the Cooperative Housing Task Force and guidelines will be issued at a later date.

Administrative Costs and Fees

HIF financial assistance should enable projects to "pencil out" with sufficient comfort that administrative costs and development fees may be paid to developers during and after construction. In addition, financial intermediaries may receive fees directly from HIF funds to compensate their efforts in assembling and/or supporting approved projects. Finally, HIF funds may be used to pay CEDAC loan processing fees.

1. Financing Fees

There are two types of financing fees that will be funded outside the project's financial package and paid directly from HIF funds: (a) a "financial intermediary fee" and (b) a "loan processing fee." Both will be paid to the LHA or CDC as a grant; the loan processing fee will then be paid to CEDAC. Together, the maximum amount of these fees will be the lesser of $30,000 or 7% of the total HIF funds that are committed to the project. Payment will be made only after EOCD has approved the project for funding.

(a) Financial Intermediary Fees

If an LHA or CDC is acting only as a financial intermediary and not in a developer capacity, it is eligible to receive a financing fee. The minimum fee will be $2,000 per successfully completed project. The maximum fee will be 5% of the total HIF funds committed for credit enhancement and for the permanent DPL mortgage, not to exceed $25,000. (There will be no intermediary fees associated with acquisition loans.)

EOCD will determine the amount of the fee in excess of the minimum (if any) based on the level of effort the financial intermediary has invested in the project and its overall housing production activity in the community. Higher fees may be earned for HIF projects that have involved substantial time commitments and for LHAs/CDCs that are particularly active in the production of affordable housing. Payments will be made as a grant, one-half at closing of the construction loan (if applicable) and one-half at final closing, i.e., permanent take-out by the first mortgage lender.

(b) Loan Processing Fee

CEDAC will be paid a loan processing fee for project review and underwriting of both acquisition and permanent loans. CEDAC's fee will be the greater of $2,000 or 2% of the HIF funds committed to the project. The amount of the loan processing fee will be paid as a grant at the time of loan closing to the LHA/CDC financial intermediary, which shall in turn pay CEDAC. (In the case of permanent financing, the 2% fee will be computed on the sum of the HIF funds committed for Credit Enhancements purposes and the DPL mortgage.)

2. Administrative Costs

Project proformas should show a line item for administrative costs that

will be incurred by the developer during the development and construction periods. The amount should be 2-3% of the hard construction budget, including contingencies. With approval of the construction lender, the developer may draw funds from this line item in proportion to draws from the construction loan.

3. Development Fees

To be approved for HIF assistance, project proformas must also show a Builder's and Sponsor's Risk Allowance (BSPRA) of at least 5% of total development costs, not to exceed 10%. (Total development costs may consist of all hard and soft costs, including the fees required by such other state financing programs as SHARP). If a development consulting fee is paid for technical assistance, then such fee must be within the allowable BSPRA and should generally not exceed one-half of the BSPRA. The BSPRA will be treated as a development fee to be drawn down at project completion, i.e., closing of the permanent financing.

If needed for feasibility and to secure firm financial commitments--and with CEDAC's concurrence--developers may be advanced up to one-half of the proposed development fee at the time a conditional financing commitment is obtained from the first mortgage lender. The development fee advance must be needed by the developer to pay for pre-development costs that cannot be adequately funded with a CEDAC Front Money Loan. The source of the advance will be the HIF permanent mortgage reserved for the project.

Flow of Funds

EOCD will enter into Grant Agreements with LHAs/CDCs in behalf of specific development projects. (For a chart showing the flow of funds, please see Exhibit A on the following page). The grant documents will identify the program components and the amount of HIF funds being awarded. They will also describe how the respective funds will be administered, used, and repaid.

All loan repayments will be made to CEDAC. The responsibilities of CEDAC vis-a-vis the evaluation of HIF projects and the administration of the program is described in a memorandum of understanding with EOCD.

Application Process

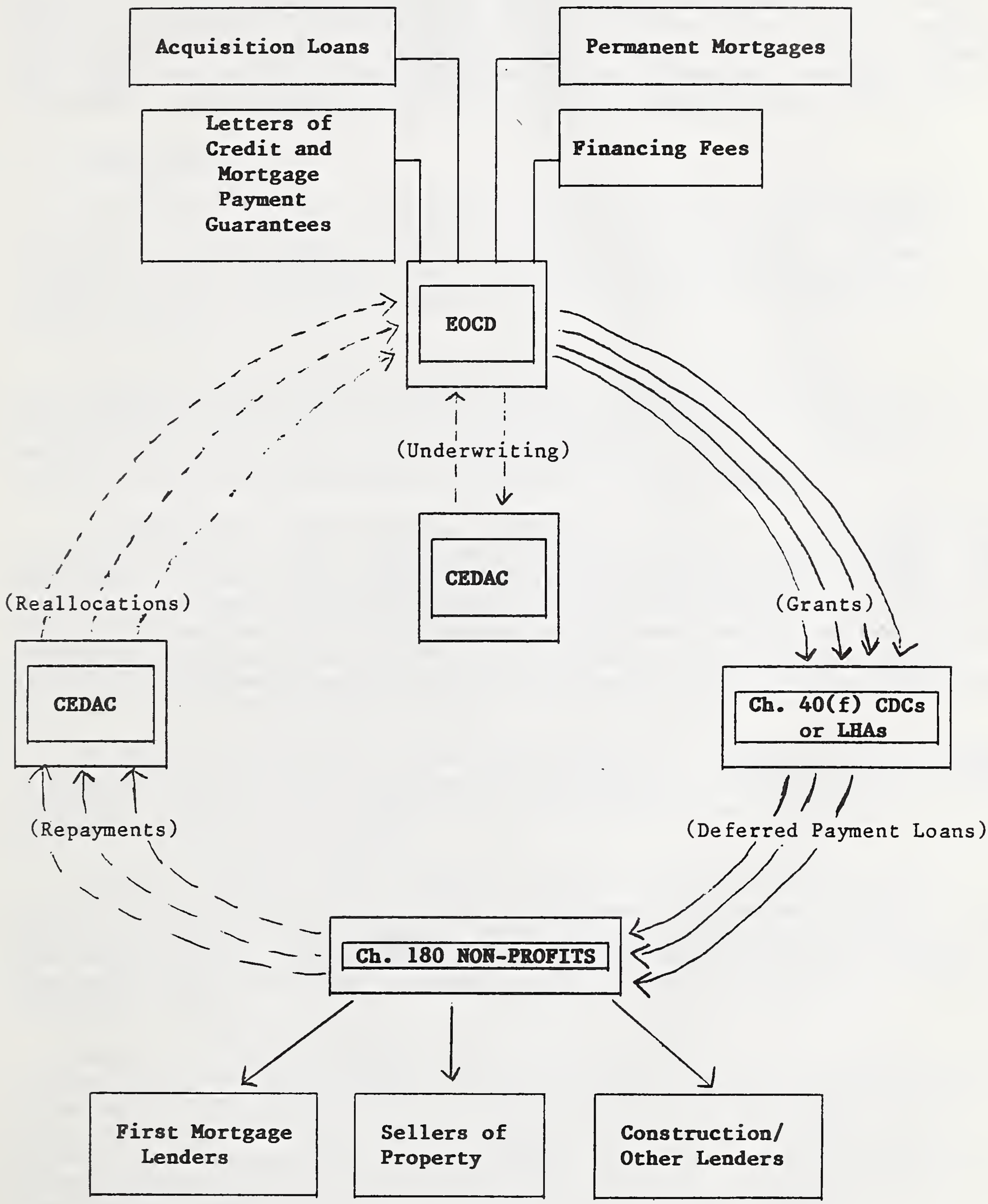
The HIF program components are designed to assist developers in obtaining debt and/or equity financing from other public and private sources. As such, it is not intended to provide the "last dollar in", but rather an initial commitment of funds that will enable the developer to seek the balance of permanent financing needed for the project. EOCD will make a "conditional reservation" of funds based on an application to CEDAC showing preliminary financial feasibility.

Initially, HIF applications will be invited in rounds held every three months. At the end of the third round, this procedure will either be continued or discontinued in favor of more continuous funding availability. Projects that have been endorsed by designated Massachusetts Housing Partnership (MHP) communities will receive priority consideration. Otherwise, there will be no competitive criteria and no prejudice against multiple applications from a particular community, a non-profit developer, or a particular financial

Exhibit A

HOUSING INNOVATIONS FUND

Flow of Funds



intermediary. (However, there will be concern with an intermediary or developer's capacity to administer funding for multiple projects.)

The application process will involve three principal steps: (1) Formal Inquiry, (2) Preliminary Application, and (3) Final Application. EOCD and CEDAC have developed the necessary forms for each step. (For a chart showing the HIF application and funding process, see Exhibit B on the following page.) EOCD legal staff will be responsible for all loan documents, mortgages, grant agreements, and development agreements and will conduct HIF loan closings.

1. Formal Inquiry

The Formal Inquiry will determine whether the project concept appears eligible for HIF funding. It should be presented to EOCD (copy to CEDAC) by the project developer, which must be a Chapter 180 corporation. A Formal Inquiry may not be submitted to EOCD by a project financial intermediary (acting only as a financial intermediary) or a state agency on behalf of a project developer.

The Formal Inquiry should include information on the sponsoring organizations (the final intermediary and the developer), including whether either or both sponsoring organizations are Chapter 180 non-profits. A brief description of the project should also be included along with the project name, location, and whether the project is located in an MHP community.

The description should indicate whether the project is an SRO (single room occupancy), limited equity cooperative, shelter, or special needs housing (and what kind of social service funding will be sought for the special needs housing). The number and bedroom size of units, income group(s) to be served, the type of construction/ rehabilitation contemplated, and whether the proposed project is preservation or production should also be included. A specific site, full development team (architects, attorneys, etc.), and other potential sources of financing need not be identified in this step.

The Formal Inquiry can be presented at any time. EOCD will respond within 30 days with a letter indicating whether the project is eligible to receive HIF assistance. Simultaneously, EOCD will invite the developer to submit a Preliminary Application to CEDAC.

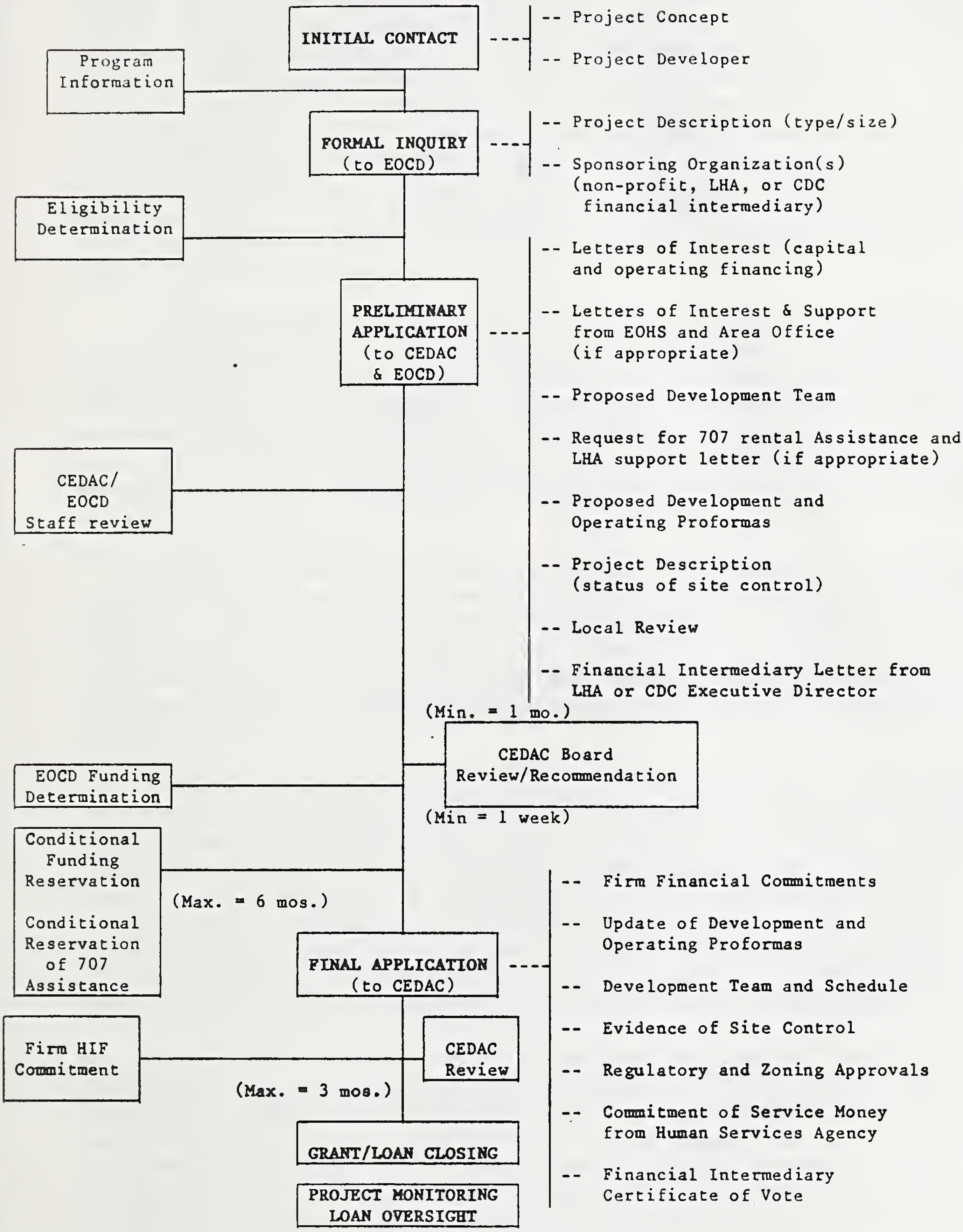
Projects located on non-contiguous parcels of land will be considered separate and distinct projects. Thus, a developer should submit separate Formal Inquiries about each project, to be followed by separate preliminary and final applications. The exception to this general rule is a limited equity cooperative corporation that is formed to hold different properties on scattered sites.

Project developers planning to use the comprehensive permit process (Chapter 774 of the Acts of 1969, also known as M.G.L. Chapter 40B) to obtain zoning for an HIF project should indicate so in their Formal Inquiry. For those projects, the determination of eligibility will also include a site review to establish suitability for housing. If the site is suitable and the proposal appropriate for HIF assistance, then the developer may apply for a comprehensive permit.

Exhibit B

HOUSING INNOVATIONS FUND

Application and Funding Process



2. Preliminary Application

The Preliminary Application must contain both development and operating proformas. Three copies of the Preliminary Application must be prepared; two copies must be submitted to EOCD and one to CEDAC. The development proforma should show the proposed sources and uses of all funds needed to complete the project. For rehabilitation and new construction projects, developers should present sufficient back-up to the cost projections shown in the development proforma. An actual contractor's bid is not required at this stage. It should also contain letters of interest from potential financing sources* (commitments not required) and letters of support from local town or city officials. (If such letters of local support cannot be obtained, then the developer should indicate why.) The Preliminary Application must also contain a development schedule showing that the necessary financial commitments will be assembled over the next six months.

The operating proforma should identify all revenue sources that will support the project. If it will rely on rental assistance through Chapter 707 or Section 8, developers should submit a Preliminary Application to CEDAC and EOCD that includes a request for 707 resources. The Preliminary Application must also include a letter from the local administering agency (usually the LHA) for the city or town in which the project is to be located showing the LHA's willingness to administer rental assistance committed to the project.

Within two weeks of EOCD's and CEDAC's receipt of a Preliminary Application, a review for completeness will be conducted. If information is missing, a letter will be sent to the developer, informing it what needs to be provided. The developer has a week from receipt of this letter to submit the supplementing information to EOCD and CEDAC. If this deadline is not met, then the Preliminary Application will not be considered until the next HIF funding round.

CEDAC's review of the Preliminary Application will focus on project feasibility and its potential to secure funding from other sources. CEDAC will then recommend to EOCD that specific amounts of HIF funds be reserved for the project. CEDAC's recommendation does not obligate EOCD to issue a Conditional Funding Reservation (or a Firm Financing Commitment) from HIF. EOCD will make a "Conditional Funding Reservation" contingent upon site control through option, purchase and sale, or other legal agreement, among other conditions. HIF funding will thus be reserved for the project for six months or until a Final Application is submitted and approved, whichever occurs first.

A project developer expecting to receive funding (either capital or operating) through a Request for Proposal process being held by a public agency (e.g., EOHS, MHFA) can request that the six-month Conditional Funding Reservation begin at a date later than the actual date of the reservation. EOCD will then defer to the human service agency's request for proposal timetable. Finally, applicants which provide supplementary material to CEDAC after a Preliminary Application has been submitted must provide copies of this material to EOCD as well.

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* If the project developer intends to seek funding from a competitive public program, such as SHARP, a letter of interest is not required. However, the developer must describe how the project will meet the requirements of the competitive program.

HIF and Chapter 707 Rental Assistance - The Preliminary Application will first be reviewed jointly by EOCD and CEDAC staff to determine whether the project is eligible for Chapter 707 rental assistance. CEDAC staff will then review the project to determine general financial feasibility. Concurrent with CEDAC's financial review, EOCD, in conjunction with the Massachusetts Housing Partnership, will decide whether an HIF project should receive a commitment of Chapter 707 rental assistance.

Both HIF and Chapter 707 commitments will be included in the Conditional Funding Reservation letter issued by EOCD for the project. The Conditional Reservations of both HIF and Chapter 707 assistance will be given for a six-month period. Before the end of this period, the developer must submit a complete final application to CEDAC in order to receive both a firm commitment of HIF funds and of Chapter 707 rental assistance.

HIF and EOHS Funding - Similarly, if operating grants are needed from an agency of the Executive Office of Human Services, letters of support from both the Executive Office of Human Services and the appropriate department (e.g., Department of Mental Health, Department of Social Services, Department of Public Health, etc.) must be included.

HIF and the Comprehensive Permit Process - An HIF Preliminary Application for a project obtaining zoning through the comprehensive permit process should probably be submitted after the permit has been obtained. This procedure is recommended because of the substantial amount of time it takes to obtain a comprehensive permit. It is expected that all units of an HIF project will "count" towards a community's 10% subsidized housing stock.

Preliminary Application for Acquisition Financing - In a Preliminary Application for acquisition loan monies, a letter of interest only from the acquisition financing lender is required. Also, operating and development proformas are not required. Letters of support from city or town officials must be included, as must a letter from the chosen financial intermediary (LHA or CDC). Preliminary Applications for acquisition financing may be submitted to CEDAC and EOCD at any time.

3. Final Application

The Final Application must be submitted to CEDAC and EOCD within six months of the date of the Conditional Funding Reservation. Again, three copies must be prepared; two copies must be submitted to EOCD and one to CEDAC. Information on the full development team must be included, along with the complete development package: legal, financial, design, environmental, capital, operational, etc. It must show a final construction budget with bid prices from the selected general contractor.

The Final Application must contain letters of firm commitment from all funding sources (capital and operating), along with a development schedule showing that the construction or permanent financing will close within 90 days of the date of the HIF Firm Financing Commitment. Based on its review, CEDAC will recommend to EOCD whether a Firm Financing Commitment should be given to the project. A Firm Financing Commitment must be followed by loan closing within 90 days.

Initial Funding Rounds

HIF applications will be invited in funding rounds (except for applications for acquisition financing, which may be submitted at any time). At present, three rounds have been planned at three-month intervals. In the first round, applications were accepted March 15, 1988, through April 15, 1988.

The second funding round will occur during the month of June, and the third round in September. Applications submitted to CEDAC by June 15 may receive approval as early as the end of July. Applications submitted between June 15 and June 30 will receive notification of status by the end of August.

In the first two rounds (March and June), Conditional Funding Reservations may be made only to projects that are mutual housing or limited equity cooperative projects, single room occupancy projects, or projects that meet the first tier definition of alternative forms of housing (i.e., housing projects that involve an unusual or specialized level of management or social service for residents populations with special needs). Preliminary Applications for projects determined to be a second priority for HIF financing (i.e., projects that involve new or unusual engineering design elements, methods of construction or production, forms of financing, combinations of financing resources or income composition) may be invited in the third round (September), depending on the level of demand from first priority projects.

Budget Allocations

Funds will initially be allocated for program components, as follows:

Share Loan Fund	$ 1,000,000
Acquisitions	5,000,000
Guarantees/Mortgages	20,000,000
Financing Fees	1,000,000
Secretary's Discretionary .	3,000,000
TOTAL .	$30,000,000

The Secretary's Discretionary fund may provide innovative forms of financing that are needed for eligible projects, but that are outside the guidelines of the respective program components.

* * * *

APPENDIX A

Definition of Housing Unit

The kinds of facilities included in a housing unit depend on the specific type of housing being created, as described below:

(1) a housing unit in conventional housing contains complete facilities for living, sleeping, eating, cooking and sanitation;

(2) a housing unit in congregate or single room occupancy housing contains complete facilites for sleeping, but may have shared facilities for living, eating, cooking, and sanitation; and

(3) a housing unit in a shelter provides separate or shared facilities for sleeping and shared facilities for living, eating, cooking, and sanitation.

In a group residence, a bedroom is defined as a "housing unit" if a separate household occupies each bedroom. If more than one household occupies a housing unit, then the project can receive HIF assistance based on the number of households in the unit. For example, if a single, large housing unit is shared by two households, the project can receive up to $30,000 in subsidy for that unit (2 X $15,000), but not to exceed 25% of the project total development cost or $500,000 per project.

APPENDIX B

HIF GUIDELINES

The Housing Innovations Fund legislation specifically mentions limited equity cooperatives as an eligible use. Because the structure of limited equity cooperatives can vary tremendously, these guidelines will address two areas of concern to HIF--limited equity formulas and their impact on longterm affordability, and the structure of syndicated coops vis-a-vis eligibility as a coop under the intent of the legislation.

PROGRAM GUIDELINES FOR SYNDICATED COOPERATIVES

Introduction

The Tax Reform Act of 1986 provides significant federal subsidy in the form of tax credits for the acquisition, renovation and construction of housing to serve low-income families. The money raised through the syndication of Low-Income Tax Credits often provides the critical equity needed to develop low-income housing in today's tight development environment. Non-profit developers are becoming more sophisticated in utilizing this equity source. At the same time, non-profits are looking for ways to increase and enhance tenant feelings of control and ownership of their housing. A new vehicle, known as the "syndicated coop" is being utilized to impart a measure of control and security to the residents while raising needed equity through a syndication of tax credits to Limited Partners.

Guidelines

Syndicated coops may be eligible for HIF financing as a limited equity coop if they are structured to meet the following criteria:

(1) Significant management control by resident coop. The coop must be one of the General Partners, with every effort made to have the coop be the Managing General. The coop corporation must be formed by the date of closing and be named in the partnership documents. Resident control of important housing issues, such as budgeting, resale, financing, resident selection, selection of the management agent, accountant, legal counsel, and any other professionals and adoption of management policies should be specifically addressed in the Partnership documents. If the coop is not the Managing General Partner at the outset, then an agreement to increase control and participation over a defined period of time must be in place. A coop training program to insure effective participation of the coop in the affairs of the development is necessary. The operating budget of the coop should show allocations for ongoing coop training.

(2) Long term affordability and Buyout protection. A buyout mechanism structured to insure the probability of a buyout of the limited partners by the cooperative at a price which will allow continued low-income occupancy must be in place. Under the new tax law provision, the lock-in period is 15 years. The cooperative should have the option to purchase the property in year 15 and the right of first refusal in the event another offer is received. Mechanisms to diminish the fair market value of the development at the time of the buyout, such as covenants, deed

restrictions, and ground leases which require the use of the property for low-and moderate-income housing should be included in the structure of the deal to insure that the price will be affordable to the coop. In addition, the partnership should be structured so that the coop shares in the residual value, if any, so that their share may be used as equity to accomplish the buyout of the limited partners. Deferred debt held by the non-profit sponsors is another way to enhance the ability of the cooperative to achieve ownership in year 15. Whatever mechanisms are used, a buyout projection, including affordability analysis, will be required to demonstrate the effectiveness of the approach in achieving long term affordability by enabling the coop to achieve the buyout in year 15 or 16. Also, it must be shown that the extra debt required for financing the purchase can be absorbed as monthly carrying costs while maintaining affordability to low-income households.

(3) Resident security in right to occupy unit. A mechanism to give residents the legal right to occupy their unit beyond the initial financing term will give credibility to a syndicated coop's application for HIF financing. The preferred model is that of a long-term lease from the Limited Partnership to the Cooperative Corporation giving the cooperators the right to occupy the coop units for up to 50 years, or well beyond the ownership by the Limited Partnership. This right of long-term occupancy will give the residents the important feeling of security of ownership, as well as provide a dampening effect on the fair market value of the property. Other structures to achieve the objective of long-term resident security may be proposed but the developer must provide sufficient back-up to demonstrate the effectiveness of the alternative approcach.

In summary, in order for a syndicated cooperative to qualify as eligible to receive HIF funds, the developer must provide evidence that three basic goals are met: (1) real control of day-to-day affairs of the development by the cooperative corporation during the syndication period and beyond; (2) long-term affordability demonstrated by buyout projections and affordability analysis; and (3) resident security of long-term occupancy of their units through a lease mechanism or other appropriate vehicle.

HIF GUIDELINES

LIMITED EQUITY FORMULAS

GOALS

Any limited equity cooperative applying for HIF financing must be able to demonstrate that the limited equity formula adopted by the cooperative will result in sale prices of shares which will continue to be affordable to incoming low-income shareholders.

PROGRAM POLICIES

In order to qualify for HIF financing as a limited equity cooperative the cooperative must meet the following criteria:

(1) The Articles of Organization and/or by-laws of the cooperative corporation must include a provision limiting the transfer value of shares of stock and a formula for determining such transfer value.

(2) The formula must insure that the shares will be affordable to future low-income shareholders. The coop may adopt a method of allocating equity which allows the <u>lesser</u> of a formula amount or the amount which is affordable to an incoming low-income family (using affordabliity assumptions outlines below). A standard formula may be adopted such as:

Maximum transfer value shall not be more than the

(a) initial purchase price of the share;
plus

(b) amortization of the mortgage attributable to the unit;
plus

(c) a Consumer Price Index (CPI) increase compounded annually but capped at no more than 10% per year;
plus

(d) the value of improvements to the units approved by the board of directors; which shall not exceed a certain amount annually, less a depreciation allowance or a cap on the lifetime value of the improvements.

Variations in formula will be at the discretion of the cooperative, but a significant variation will require the cooperative to demonstrate the effectiveness of the proposed formula in achieving affordability over time.

(3) The accumulated equity of the cooperative corporation, after allowance for maximum transfer value of stock, must be permanently dedicated to providing housing for households of low-or moderate-income.

(4) Limited equity formulas notwithstanding, the avoidance of default on HIF financing is contingent upon continued occupancy by low-income families in at least 50% of the units. If Chapter 707 subsidies are used,

Chapter 707 regulations put a ceiling on the amount 707 recipient may pay for monthly carrying charges and share financing. This effectively restricts the maximum transfer value to what that new 707 family can afford. If there are no long-term subsidies like 707 to insure affordability, coops may insure that this provision is met by either (1) having a right of first refusal on shares which the coop must then market to low-income families; or (2) by requiring the sale of stock to a low-income family and further requiring that the new family will pay no more than 30%* of their income for their monthly carrying charges plus the cost of share financing. In addition, the price of the required cash downpayment on the share loan shall not exceed two months carrying charges (i.e., contract rent under the Section 8 or Chapter 707 program).

*or such future standard for affordability as may be established by HUD or EOCD

APPENDIX C

Discussion of the meaning of an unusual or specialized level of management or social services and special needs populations.

An unusual or specialized level of management or social services is defined as services provided in a housing development that enable special needs populations (as defined below) to attain or maintain maximum personal independence.

Special needs populations are defined as an individual or a family which has at least one member who has a physical or mental impairment which (1) is expected to be of long or indefinite duration; (2) substantially impedes his or her ability to live independently; and (3) is of such a nature that the person's ability to live independently could be improved by more suitable housing conditions. Such an individual could also be under a disability as defined in Section 223 of the Social Security Act or in Section 102 (b)(5) of the Developmentaly Disabilities Services and Facilities Construction Amendments of 1970.

(1) Section 223 of the Social Security Act defines disability as:

> (a) "Inability to engage in any substantial gainful activities by reasons of medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months; or
>
> (b) In the case of an individual who has attained the age of 55 and is blind (within the meaning of "blindness" as defined in Section 416 (i)(1) of this title), inability by reasons of such blindness to engage in substantial gainful activity requiring skills or abilities comparable to those of any gainful activity in which he has previously engaged with some regularity and over a substantial period of time."

(2) Section 201(b)(5) of the Developmental Disabilities Services and Facilities Construction Amendments of 1970 defines disability as:

> "A disability attributable to mental retardation, cerebral palsy, epilepsy, or another neurological condition of an individual found by the Secretary (of Health and Human Services) to be closely related to mental retardation or to require treatment similar to that required for mentally retarded individuals, which disability originates before such individual attains age eighteen, which has continued or can be expected to continue indefinitely, and which constitutes a substantial handicap to such individual."

Persons who are substance abusers, physically abused, pregnant teenagers, homeless, deaf or hard of hearing, visually impaired or blind, mentally retarded, mentally ill, or mobility impared are all considered to be special needs populations.

APPENDIX D

Addendum to Housing Innovations Fund Guidelines

Increased HIF Financing Amount for SRO Projects

Increasing the HIF financing amount for Single Room Occupancy (SRO) projects which do not have commitments of unit-based or back-up Chapter 707 Rental Assistance certificates.

Background

At present, HIF provides financing for SRO projects of $15,000 per unit or 25% of total development cost, whichever is less. With the addition of other public funding sources (such as Weatherization, CDBG, etc.), perhaps 65-70% of the project's total cost must be financed through private lenders, with resultant debt service carry expense. In strong market areas with high site acquisition and development costs, it is usually impossible to maintain 50% low-income affordability in the project as required by the HIF program, and still meet the project's debt service and operating expenses without the addition of Chapter 707 rental assistance support.

Thus, if Chapter 707 assistance is not available to support SROs, further development of this housing type will be impossible, since economic rents alone will not generate sufficient income for project feasibility. Given the scarcity of Chapter 707 assistance in the current fiscal year, it is likely that further production of new SROs under the June 1, 1988 HIF guidelines will be substantially curtailed.

Policy

In response, at EOCD's discretion and when needed for project feasibility, increased HIF financing will be available for new SRO developments which do not have unit-based or back-up Chapter 707 assistance for all low-income units. Projects that have Chapter 707 rental assistance on a portion of the low-income units (as defined in HIF regulations, targeted to households with incomes below 80% of the area median), may receive up to $25,000 per unit or 50% of the per unit development cost, whichever is less, for those units for which there is no Chapter 707 committed. The use of Section 8 resources in an SRO project will be considered on a case-by-case basis. The per-project limit of $500,000 in permanent mortgage financing will remain. EOCD will require the submittal for approval of a proposed rent schedule for the non 707-assisted units. The rent schedule should demonstrate rent affordability in the project that exceeds HIF minimum requirements.

The promotion of new SRO developments that rely on economic rents within affordability guidelines should be possible with this deeper HIF capital contribution by reducing the project's debt service carry expense for other financing. This policy is in effect for preliminary applications submitted in the September funding round and future rounds.